

WHAT DOES TRANSFER OF SERVICING MEAN?

When you take out a mortgage with a mortgage company or a bank, there is always a possibility that the lender will "sell" or "transfer" the servicing of your loan to another institution. "Servicing" means the collection of payments and management of operational procedures related to the mortgage. When servicing is sold, it means that another lender will be taking your payments, handling your escrow accounts, paying your insurance and taxes, and answering your questions. This may happen right after you close on the loan or several years later.

The practice of selling or "transferring" the servicing of your loan is legal and is very common in the mortgage industry. When the servicing is sold, it is usually packaged in a bundle with lots of other loans. Some mortgage companies only originate loans and sell or transfer the servicing immediately. It is more cost-effective for these companies to do this because servicing is not a part of their business. It is common to get your mortgage from a neighborhood lender and have it transferred to an institution in another state. It is also possible for your mortgage servicing to be transferred more than once during the life of your loan.

Whether or not your servicing is sold, has nothing to do with the quality of your loan or your payment history. It has, in fact, nothing whatsoever to do with you personally.

HOW DOES IT AFFECT YOU?

The company that holds your loan makes the decision to transfer servicing to another institution. The company does not have to ask your permission to transfer the servicing, but it does have to inform you of the transfer.

The transfer of servicing should not affect you or your mortgage adversely. The original terms and conditions of your mortgage will stay the same. Your interest rate and duration of your loan will not change on fixed rate loans. Your payment should stay the same or on the same schedule, except in cases where changes in taxes or insurance requirements increase or decrease the escrow amount.

If you have an adjustable rate mortgage (ARM), the original conditions of the mortgage contract stay in effect, and the rate will change according to the adjustment periods (i.e., every six months, annually, every three years, etc.) This information is contained in your contract, but you are welcome to verify the information with your new servicer. If your original lender agreed to let you refinance to a fixed-rate mortgage (FRM) within a certain time-frame, you should ask whether this agreement would be honored by the new lender.

WHEN WILL YOU BE NOTIFIED?

When your lender decides to transfer servicing, you should receive a "goodbye" letter at least five to 15 days before the date your next payment is due. The letter should state who your new servicing company will be, where it is located, the name and phone number of a contact person or department, and where and when you should send your next payment. You should also receive a "welcome" letter from the new servicer that outlines the same information. Both letters should give the name of the new institution, a contact, phone number, (toll-free if available), the new servicer's address, and instructions for making your next payment.

An Important Consumer Safeguard

It is very important that you receive both letters. If you receive only a letter from the new servicer, be sure to call your original servicer to verify that your loan actually has been transferred. It is extremely important that you keep your servicer informed of your current mailing address, so that you will receive all relevant correspondence.

WHERE DO YOU PAY YOUR NEXT PAYMENT?

If you have received both letters or have verified the transfer of your mortgage with your old servicer, be sure to send all payments from that point on to your new servicer. If you send the payment to the old servicer, you run the risk of the payment not getting to the correct lender in time, paying a late charge, or of having the payment being lost. It is your responsibility to send the payment to the new servicer once you are informed of the transfer.

The "welcome" letter from your new servicer will often inform you if you will be receiving new payment coupons. But if your payment is due before the coupons arrive, write your loan number on the check, and send it to the address provided in the welcome letter. If you have coupons from your previous servicer, you may include this with your payment.

You will want to read the "welcome" letter carefully for payment instructions. Your payment date will not change, since it is determined in your original mortgage document. If your mortgage is paid through electronic funds transfer or automatic draft each month, you will need to cancel that arrangement and fill out new forms for the payment to be sent to the servicer. Since this often takes time, you may need to send a check yourself for a payment until your electronic funds transfer is changed over. This is something that you will need to take care of. The new servicer cannot take the payment from your savings or checking account without your signature.

If you accidentally send your payment to your old servicer, the company will usually forward the first payment to the new servicer, but they will not continue to do this. By not sending your payment to the correct office, you risk your payment being lost. There are some cases where the old servicer no longer exists due to a merger or take over. In that case, the payment may be returned to you by the postal service after several weeks, which may cause a late charge to be assessed to your account.

It is always best to follow the payment instructions received in the "welcome" letter or ask your new servicer about alternate payment locations.

WHAT HAPPENS TO YOUR ESCROW ACCOUNT?

It is your old servicer's responsibility to inform the insurance company and your tax authority of the change in servicer. A follow-up call from you to the insurance company or tax authority can help ensure that the tax or insurance bill is not sent to the wrong servicer. You should be able to find their number on your original insurance documents. When you call the insurance company or tax authority, make sure they have your current address and phone number in case they need to contact you.

If your escrow account is interest bearing, all interest due should be credited to your account by the old servicer before the transfer takes place. Your old servicer is responsible for handling these items prior to the transfer.

Some time after your servicing is transferred, your new lender will make an analysis of your escrow. During an analysis the lender reviews your escrow amount and determines if it is adequate to cover the fees for your insurance, taxes, and any other premiums paid through escrow. If the amount is found to be insufficient, the lender may ask you to increase your regular monthly payment. If it is your new servicer's policy to review escrow accounts as soon as the servicing is transferred your payment may change immediately. You should receive an explanation regarding any change.

WHAT ABOUT INSURANCE POLICIES AND TAXES?

If you receive a notice that either your insurance or taxes are due, call your new servicer and make sure that company has on file that funds have been escrowed for the premium. If the new company has not received a copy of that bill, it will probably direct you to send in the bill for payment. If you have a question after the transfer has taken place, you should contact your new servicer, even if your old servicer was the one that collected the funds for your insurance or tax payment.

Some mortgage companies offer to escrow for life or disability insurance (insurance that would pay off the mortgage in case of death, or make payments in case of disability). In these policies the lender who originally made your loan is named as the beneficiary. If you have these policies, your old servicer should inform you of what effect the transfer of servicing will have on this insurance coverage and what action you may need to take to maintain coverage.

On flood and hazard insurance, it is the responsibility of the old servicer to provide the insurance agent or company with a notice of transfer. The beneficiary may be able to be transferred from one company to the other, but it is wise to make sure this occurs. You should make sure to transfer the beneficiary to ensure that, in case of a claim, the check is written and sent to the appropriate servicer.

WHO SENDS YOUR END OF THE YEAR TAX STATEMENT?

Make sure that you find out which lender will be reporting your interest paid for income tax purposes. Sometimes, both lenders will report on the time that they had the loan. Quite often, the new lender will compile the information and send you one tax statement at the end of the year that covers the entire year. You should find out about this at the time of the transfer, so that you know if you should look for one statement or two at the end of the year.

DO YOU HAVE MORE QUESTIONS?

Usually your old servicer will make sure everything is taken care of prior to the transfer, but it is in your best interest to check on all details. It is best to ask questions at the time of the transfer to make sure everything is handled before your old servicing company purges your records from its files. It is much more difficult to get information from an institution that has not handled your loan for the last six months.

If you have questions regarding your specific transfer, it is always best to contact your new servicer in writing. At times of mortgage transfers, most companies are flooded with phone calls, so you may get faster and clearer information through the mail.

CONSUMER CHECKLIST

- ✓ Always keep your servicer informed of any changes in your address and phone number. Provide this information in writing and forward it to the address indicated in your "welcome" letter. This address is usually different from the one that you would send payments.
- ✓ When your servicing is transferred, make sure you receive both a "goodbye" letter and a "welcome" letter. If you don't receive both letters, call your old servicer to verify the transfer.

- ✓ When you receive the letters, read them carefully making note of the new servicer's name, address, phone number, contact name, and payment information.
- ✓ When making your payments after your servicing has been transferred, follow the instructions in the "welcome" letter.
- ✓ Make sure that your insurance companies (homeowners, flood/hazard, life/disability) and your tax authorities have been notified of the transfer.
- ✓ Find out which company will be reporting on your interest paid for income tax purposes.
- ✓ Ask questions at the time of the transfer. If there is a problem, it is easier to handle it as soon as it arises. If you have questions after the transfer is completed, contact your new servicer.

The Indiana Department of Financial Institutions, Division of Consumer Credit has many other credit related brochures available, such as:

Answers to Credit Problems
Applying for Credit
At Home Shopping Rights
Bankruptcy Facts
Buried in Debt
Car Financing Scams
Charge Card Fraud
Choosing A Credit Card
Co-Signing
Credit and Divorce
Deep in Debt?
Equal Credit Opportunity
Fair Credit Reporting
Fair Debt Collection
Hang up on Fraud
High Rate Mortgages
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Mortgage Loans
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Scoring for Credit
Shopping for Credit
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What is the DFI?

Call our toll-free number or write to the address on the cover for a copy of any of the brochures listed or for further consumer credit information. You can also access information at our web site on the Internet: <http://www.dfi.state.in.us>, then click on Consumer Credit.

MORTGAGE LOAN TRANSFER



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